

Hezlett, Henry
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Nations Charter.

We have already established such a defense pact for the Western Hemisphere by the treaty of Rio de Janeiro.

The primary purpose of these agreements is to provide unmistakable proof of the joint determination of the free countries to resist armed attack from any quarter. Every country participating in these arrangements must contribute all it can to the common defense.

If we can make it sufficiently clear, in advance, that any armed attack affecting our national security would be met with overwhelming force, the armed attack might never occur.

I hope soon to send to the Senate a treaty respecting the North Atlantic Security Plan.

In addition, we will provide military advice and equipment to free nations which will cooperate with us in the maintenance of peace and security.

Calls for "A Bold New Program"

Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas.

More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economies are stagnant. Their lives are both to

Illusions of Point Four

By Henry Hazlitt

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...technical knowledge in
...aspirations for a better life.
...other nations, we should foster
...areas needing development.
...to help the free peoples of the world,
...efforts, to produce more food, more cloth-
...materials for housing, and more mechanical power
...hasten their burdens.

We invite other countries to pool their technological resources in this undertaking. Their contributions will be warmly welcomed. This should be a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies whenever practicable. It must be a world-wide effort for the achievement of peace, plenty, and freedom.

With the cooperation of business, private capital, agriculture, and labor in this country, this program can greatly increase the industrial activity in other nations and can raise substantially their standards of living.

Such new economic developments must be devised and controlled to the benefit of the peoples of the areas in which they are established. Guarantees to the investor must be

Henry Hazlitt Illusions of Point Four



The Foundation for Economic Education

Irvington-on-Hudson, New York 1950

Henry Hazlitt is a Contributing Editor of *Newsweek*, for which he writes the column, "Business Tides." Mr. Hazlitt, whose writing assignments during the past three years have taken him to both Europe and South America, is the author of several books and many articles. Among his books are *Economics in One Lesson*, one of the few serious economics works to become a best seller in recent years, and *Will Dollars Save The World?* which sold almost 80,000 copies and was condensed in *Reader's Digest*.

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Illusions of Point Four

In his inaugural address of January 20, 1949, President Truman announced what has since become the famous "Point Four":

We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. . . .

We should make available . . . the benefits of our store of technical knowledge. . . . And . . . we should foster capital investment in areas needing development. . . .

This program can greatly increase the industrial activity in other nations and can raise substantially their standards of living. . . .

No sooner was this announced than the brains of Washington bureaucrats began to bubble with grandiose schemes for pouring still more of the American taxpayers' money into foreign lands. Our government representative put the idea before the Economic and Social Council of the United Nations, which, of course, adopted a resolution approving it. The Economic Cooperation Administration set up a "colonial development division." A hundred schemes were born to "implement" Point Four.

It is instructive to look into the origin of this idea. Which particular adviser sold it to the President does not

here concern us. The record shows clearly where the idea came from in the first place.

The following quotations are from a book published in 1944:

America can underwrite a gigantic program of the industrialization of Africa, to be launched immediately. . . . It must initiate a general and steady rise in the standard of life of the African peoples. . . .

Closely related socially, economically and politically with Africa are the Near Eastern countries of Arabia, Iraq, Iran, Syria, Lebanon, Palestine, and Trans-Jordan. . . . Here also a broad regional program of economic development is called for. . . .

What is clearly demanded by the situation is that the United States take the lead in proposing a common program of economic development of the Latin American countries. . . . For Latin America [such a program] opens the door for an immense leap ahead in progress. . . .

For the United States especially it contributes a large part of the answer to that all-important question as to whether we shall be able to keep our national economy in operation. . . .

The government can do it, if "free enterprise" fails to meet the challenge and bogs down on the job.

Our government can create a series of giant industrial development corporations, each in partnership with some other government or group of governments, and set them to work upon large-scale plans of railroad and highway building, agricultural and industrial development, and all-round modernization in all the devastated and undeveloped areas of the world. America has the skilled technicians capable of producing the plans for such projects, sufficient to get them under way, within a six-month period of time after a decision is made. . . .

On a world scale the combined projects could be self-liquidating in the period of a generation. They would become the best investment the American capitalist class had ever made in its whole history.

The book in which these proposals appeared nearly six years ago was "Teheran: Our Path in War and Peace" (International Publishers). And the name of the author was Earl Browder, then still officially head of the American branch of the Communist party (temporarily calling itself the Communist Political Association).

The parallel between this communist proposal and Point Four is obvious. Whether or not the proposals of Point Four stem directly from Browder's, they embody the same basic collectivist and statist assumptions.

We cannot give our cake away and eat it too

There is, of course, nothing new in the belief that sound international investment promotes world production. The only thing that might be called "new" in this "bold new program" is the paternalistic assumption that the process of international investment must not be undertaken, as hitherto in modern times, by private investors at their own risk, to private borrowers who have proved their credit-worthiness and responsibility, but must be nursed, spoon-fed, furnished with crutches, and guided at every step by government.

And even this idea is not really new. It is embodied, as we shall see, in government agencies already in operation.

The President assumes, like Earl Browder, that it is the American taxpayers' duty to raise the standards of living of the so-called "underdeveloped areas" all over the world. What the President never mentions, and does not seem to realize, is that we can do this only by lowering our own

standards of living compared with what they would otherwise be. If our taxpayers are forced to contribute millions of dollars for hydroelectric plants in Africa, they will obviously have that much less for more hydroelectric plants here. If they contribute a million dollars for a housing project in Uruguay, they will have just that much less left for their own housing, or any other equivalent, at home.

Most of the supporters of Point Four harbor the persistent illusion that it will add to the total capital invested in the world; that it will in some way add to the total wealth of the world. It will, of course, do nothing of the kind. The government has nothing to give or lend to anybody that it does not first of all, or ultimately, take from its own taxpayers. By at least as much as it adds to the purchasing power of Paul, it must reduce the purchasing power of Peter. The capital that the government would lend or give away under Point Four would reduce by at least a corresponding amount the private capital that our own taxpayers would have to invest.

The government at best can merely *divert* capital from one channel to another. And it is overwhelmingly probable that the government will invest capital far less efficiently than its private owners otherwise would have done. The government's intervention will divert capital from the points at which it would have produced more wealth to the points at which it will produce less wealth.

This simple principle that we cannot give our cake away and eat it too has been utterly ignored in the whole bally-

hoo about Point Four. If the American people are being urged to undertake Point Four primarily for charitable and humanitarian reasons, then they ought to be told in all candor that this charity will make them poorer, not richer. It is misleading to pretend that Point Four is at once a great charity and a shrewd way of selling more goods.

Yet the advocates of Point Four talk constantly as if we would grow richer by giving our capital away. The President, in his special message to Congress of June 24, 1949, declared:

Our experience shows that the volume of our foreign trade is far greater with highly developed countries than it is with countries having a low standard of living and inadequate industry. To increase the output and the national income of the less developed regions is to increase our own economic stability.

A series of misconceptions lies behind this view. It is of course true that rich countries buy more from us than poor countries. But the reason that rich countries are better customers than poor countries is that they have more goods to send us in *return* for the goods we send to them. It is because the *exchange* is profitable to both of us that it is made.

Considering ourselves collectively, we want to sell automobiles to Brazil, for example, in order to get coffee from Brazil. But if in addition we give dollars to Brazil in the hope that Brazil will use them to buy more automobiles from us, then we are in effect merely giving away the automobiles. This is not "trade," but camouflaged charity. It

makes us poorer, not richer. It does not increase the total volume of our business. The dollars we give Brazil must be taken from somebody. They would in fact be taken from our own taxpayers, who would in consequence have exactly that much less purchasing power to buy goods at home. It is true that exporters, as such, might do more business, but it would be simply at the expense of those who were producing for our home market.

We do indeed sell more to rich nations than to poor nations. Tiffany's has also made the amazing discovery that it sells more diamonds to the rich than to the poor. But it has not yet occurred to the managers of that firm that it would increase its profits either by giving the poor the money to buy its jewelry or by making bad loans to them.

Where is capital most productive?

Another misconception behind Point Four is the assumption that investment in backward or "underdeveloped areas" must necessarily increase world production or wealth more than the same investment in advanced areas. On the contrary, advanced industrial countries today can in most cases utilize additional capital far more productively than can backward countries. It is precisely for this reason that in free markets investment funds tend to flow in greatest volume to the countries where most capital is already invested.

Let us try to see why this is so. Production is not brought about by any single factor, but by a combination of fac-

tors. It is never brought about by capital alone, but only by capital in combination with land, with a desirable location (in relation to production, transportation, and consumption), with labor (much of which must be specialized and highly skilled), and not least of all in combination with *other* capital.

Perhaps we may best illustrate this, at the start, with a fictitious example. Suppose you are a wealthy, generous and eccentric man anxious to make someone a present of a diesel locomotive. If you decide to give it to the owner of a prosperous American railroad your gift will doubtless not only be welcome but an efficient means of increasing production and wealth. This will be especially true if the railroad runs through prosperous territory, if the roadbed and rails are in first-class condition, if the road has plenty of passenger or freight cars and a comparative shortage only of locomotives. Then your diesel locomotive will be a new part helping to make a more balanced, productive whole. It may cut operating expenses enough to repay its own cost in a half-dozen years.

Suppose, however, that you decide to present it instead to your friend the Shah of Backwardarea on the supposition that he can make better use of it. If the Shah is a candid potentate, you may get a reply like this:

Dear Sam:

I am overwhelmed, in more senses than one, to learn that you are shipping me a diesel locomotive. I hope you have also paid the shipping charges, as frankly I haven't the funds to pay them myself.

There are several problems connected with your generous

gift to which I venture to call your attention. When your locomotive gets here I fear it will simply stand out in the rain, unless you also send a quonset hut that could be turned into a museum for exhibiting it. For my country will be unable to make any other use of the locomotive unless your great generosity should prompt you to send a few other things along with it. For example, we haven't the freight cars for the locomotive to pull. And if we had the freight cars we would need a better roadbed and your standard gauge rails for them to run on. And if we had these we would also have to have something for the railroad to transport.

Would you be willing to set up some first-class factories at one end of the line and some rich consumers (or at least good port facilities) at the other? I'm afraid you would also have to send over the skilled workmen, engineers, and technicians to build and operate the railroad, port, and factories.

Moreover, health and sanitary conditions in my beloved country are, I fear, deplorable. It would take considerable funds and more than considerable time to make these tolerable enough for real production to take place here. Another thing: We have no adequate water supply, and we should need irrigation projects on an enormous scale.

In fact, as I begin to think of the matter, it strikes me that the best solution would be to present me with an entirely new country in a more suitable location.

With warmest regards, I am

His Imperial Majesty, etc.

Russia's capital investments

If this sounds exaggerated, let us take a real case. Here is how John Abbink, engineering consultant to the State Department, described the ideas of one group from an "underdeveloped area." He spoke at a meeting of the United Nations Scientific Conference on Conservation and Utilization of Resources:

This group estimated that the provision of \$500,000,000 in modern machinery would meet its requirements. This would mean the investment of at least \$1,000,000,000 when the necessary shops and buildings were erected.

As we discussed the proposal, it became evident that not only must the machinery be imported, but skilled labor and management engineers as well would be required from abroad for a period of years. More seriously, practically all of the estimated 100,000 operatives who would be needed must be recruited from agricultural regions where labor was already scarce.

Coal for heat processing was expensive and poor in quality. Besides, the local demand for products which would come from the new machinery was insufficient to insure capacity operation for more than a few weeks each year. A large export market would need to be developed in the face of competition from manufacturers in other countries who have had long experience in supplying the world's wants.

This last difficulty was waved aside with the suggestion that the United States should be prepared to take any surplus which developed, whether there was a demand in this country for such products or not, and even though the prices might be far higher than those of comparable products obtainable elsewhere.¹

Such proposals seem incredible only to those who are accustomed to think of how private investors act, and have no acquaintance with the history of governmental behavior in this field. The great Dnieprostroy dam and hydroelectric plant, the prewar pride of Soviet Russia, is thus described by an exiled Russian economist writing in 1935:

The rapid construction of the great power station on the Dnieper rapids (Dneprogez) is accounted one of the most

¹ *The New York Times*, August 30, 1949.

brilliant feats of the Soviet government, and it has already won for the government the support of many foreign travellers. But from an economic point of view the rapid construction of Dneprogez cannot be justified at all, because many years must elapse before the factories which it is supposed to serve will be completed; there seems, indeed, to be no urgent need for them. Meanwhile no funds are available for house-building in Magnitogorsk, and it is very probable that the unsatisfactory results yielded by this smelting works are the direct outcome of the disgusting conditions in which the workers are compelled to live.

The theory that the Soviet Russian planned economy is a system for the future rests upon another very doubtful premise. It is supposed that all the buildings and factories which are being built in accordance with the plan will one day be of use to the community. . . . But the building work is not governed by the principle of profitability. . . . It is not only probable that many of the factories will fail to yield any return on the capital invested in them (and this means that the capital could more usefully have been invested in other undertakings), it is even probable that their receipts will not cover their running expenses. Such doubts are awakened particularly by the Soviet government's greatest projects, the enterprises in which it takes the greatest pride.²

Nor are such flagrant violations of the principles of economic productivity confined to an outright communist government like that of Soviet Russia. They are typical of government-sponsored enterprises always and everywhere. If we wish a vivid preview of what would typically happen under Point Four once it were put into effect, we need go no further than the British peanut scheme, still in operation.

² Boris Brutzkus, *Economic Planning in Soviet Russia* (London: George Routledge & Sons, 1935), pp. 228-9.

Britain's peanut fiasco

This is known in Britain as the groundnuts scheme, but will probably become better known here as the great peanut fiasco.

In the first year after the war, a plan was presented to the British government to grow peanuts on millions of acres of previously uncultivated wild bushland in Tanganyika and surrounding territories in East Africa.

This plan was based on the argument that there was a world shortage of edible oils and fats. A third of Britain's deficit in these oils and fats could be met, it was said, by producing 600,000 tons of peanuts a year on 3,200,000 acres of hitherto unused East African soil. At first — late in 1946 — the scheme was turned over to a private corporation selected and subsidized by the government. But as of March 1, 1948, the project was taken over by a company set up by the government itself. This was known as the Overseas Food Corporation.

On November 1, 1949, the first annual report of the government corporation was published. It presented a picture of frustration and failure. The corporation's accountants declared that proper financial records had not been kept. The corporation's own report declared that the original estimates were "a splendid vision for Africa, but a vision beyond attainment. . . ."

At the insistence of the Opposition, the fiasco was debated in the House of Commons. But the government forces refused to abandon the scheme, and even refused to permit an inquiry.

Yet the report of the corporation had itself admitted that in the first year *it took four times as long, and cost ten times as much*, to clear an acre of bushland as had been estimated. Even such simple things as the cost of maintaining tractors had been "greatly underestimated."

In the Parliamentary debate on the issue, John Strachey, the Minister of Food, himself disclosed that five years from now (in the harvest season of 1954) the East African peanut plantations would have only one-fifth of the acreage originally intended, would have cost twice as much as at first estimated and would not be paying a "satisfactory dividend" on the investment.

In 1947 the project was planned to consist of 3,210,000 acres, to be cleared in five years at a cost of approximately £23,000,000. But the Food Minister admitted that only 600,000 acres would be cleared by the 1954 season. The total originally estimated cost had virtually all been spent. He intimated that the entire capital of the Overseas Food Corporation — perhaps £45,000,000 or £50,000,000 — might be consumed.

The Food Minister did remove a couple of scapegoats from the board of the Overseas Food Corporation. One of them, A. J. Wakefield, who refused the Minister's invitation to resign, wrote in reply: "During our conversation . . . you mentioned that commanders in military operations had to be sacrificed when things went badly amiss." But he pointed out that it was not himself, but the chairman of the board, who had been the commander. However, the

Minister of Food and the chairman of the board remained in their posts.

The reasons that the Minister of Food gave for refusing to abandon the scheme were interesting. To stop would have been an admission of failure, and while it was true that the British public still didn't have any peanuts to show for its money, which was the original purpose, there were ports, roads, towns, hospitals, water systems, a railway, and a college to show for it.³

Who can doubt that we have here, in advance, before our eyes, an outline of what the typical history will be of our own American-financed Point Four projects once they are well launched — from the first “splendid vision,” with its inevitable overestimation of results and underestimation of costs, to the dismal revelations of failure, the refusal of all requests for an impartial inquiry, and the defense and continuance of the program on the ground that, though it was of course a fiasco as an investment, there were a few odds and ends to show for it as a charity?

There will be no estimate at all, of course, of how much the same funds could have increased domestic or foreign production if the individual taxpayers had been allowed to keep them or invest them at their own risk. On the contrary, the taxpayers will have to submit to still further losses. Government officials will insist on throwing good money after bad in order to save face.

³ See *The New York Times*, November 2 and November 22, 1949, and *The Sunday Times* of London, November 20, 1949.

One of the reasons the British Minister of Food gave for continuing the peanuts scheme is that the world is still short of fats and oils. It never seems to have occurred to him that if this were really so, the shortage would be reflected (in free markets) in temporary high prices for fats and oils. This would lead to greater production of fats and oils by private farmers all over the world. And the British public could then buy these by increasing and selling their own production of the things that they in turn made most efficiently.

Loans to increase statism

International lending *by* governments (or under government guidance) almost inevitably becomes lending *to* governments — or at least only to such “private” projects as have the approval of the government of the country in which the projects are located.

This means that the decisions at both the lending and the borrowing end will be determined primarily by political rather than economic considerations. In a joint statement made public on December 30, 1949, the President of the United States and the Shah of Iran said:

The President appreciates the importance of this [Seven-Year Plan] to the economic development of Iran, and applications by the Iranian Government to the International Bank for Reconstruction and Development for economically justifiable loans to be used in the furtherance of the program will therefore receive the support of the United States.

Subject to favorable Congressional action on the Point Four program, the United States also stands ready to facilitate

Iranian economic development through the provision under Point Four and otherwise of technical assistance if requested by Iran. . . .

This clearly implies that it is the President of the United States, acting primarily on "foreign policy" grounds, and not any autonomous group of bank or credit officials, thinking primarily of the safety and soundness of the investment, who will ultimately decide not only who gets the Point Four loans, but who gets even the loans made by the existing International Bank.

Who can doubt that the assumed diplomatic exigencies of the moment will play a large part in all our government's Point Four loan decisions? And in the constant shifts of power and alliances, who can tell which of our political "loans" for "defense" would eventually be turned into weapons of offense against us?

Nor is it difficult to foresee the kind of specific projects most likely to appeal both to our own government and to the governments of the borrowing countries. It would never be politically discreet for an American bureaucrat to approve a purely private project in a foreign country or to undertake to guarantee an American private loan to that project. For if the loan went bad, he would find it most embarrassing to defend his approval of it. He would be lucky to escape investigation and charges of corruption. But if he approved a loan direct to a government that had our State Department's blessing, or approved a loan to a private project only if it were guaranteed by such a government, the mere fact that the loan had had such a guar-

antee would be considered a sufficient defense of it. If the foreign government itself defaulted, or was overturned by revolution, the individual American bureaucrat would not be blamed for such a piece of bad luck: he would be excused as merely carrying out our national policy.

This means that the loans approved or guaranteed under Point Four would be almost entirely either for direct government projects or for government-sponsored or government-guaranteed projects in the borrowing countries. The history of the loans already made by our existing Export-Import Bank amply foreshadows this.

Many of the Point Four loans, doubtless, would be for the kind of projects that have been traditionally undertaken by governments. These include public roads and highways, bridges and dams, reservoir and sewage systems, land reclamation, drainage, irrigation and flood control, insect, malaria and typhus eradication, other public health and sanitation measures, education, and so on.

Such projects are often valuable and even indispensable. Many of them are not necessarily "socialistic" in the common acceptance of the term. But all of them have one thing in common with socialistic enterprises. It is not possible to calculate exactly *how* valuable or *how* necessary a specific project of this sort may be in comparison with an alternative private project that might otherwise be financed with the same funds.

It is possible to compare the relative urgency of private projects with each other through a comparison of free market prices, profits, and losses. Projects that produce

things that consumers want, and that produce them economically, pay a profit. The profit is in proportion to the degree in which the project is wanted by consumers and to the efficiency with which it is run. A project that produces things that consumers do not want, or produces them at too high a price, shows losses. This is the mechanism by which the free market (i.e., the consumer) decides the proportions in which thousands of different commodities and services are produced. This is the way in which the free market decides the relative urgency of private projects.

But it is impossible to use a profit or prospective-profit comparison to decide the relative urgency of, say, a new private textile factory and a new or better public road. This decision must be largely a matter of guesswork.

Public roads and water-works, public drainage and dams, like privately-produced commodities and services, are subject to the economic law of diminishing marginal utility. But they are removed from the market-pricing system by which their relative marginal utilities can be compared. A new public road may be more urgent or less urgent than a new private textile factory. But under an intergovernmental setup of the sort contemplated by Point Four it is *governments* that knowingly or unknowingly will make the decision concerning which of the two projects shall be built. And it is not unrealistic to assume that a government will always give the benefit of the doubt to the government project.

So one effect of Point Four would certainly be to divert a larger percentage of capital investment than otherwise

away from private projects and into government projects.

Nor can we assume today that these government projects will be limited to those that governments have traditionally undertaken in the past. The tendency has been for governments constantly to widen the scope of their projects and to take over more and more enterprises formerly left to private initiative. And this means that the loans under Point Four would be used to speed up the present fashionable trend away from free enterprise and toward statism and socialism.

The International Bank

This is not a matter of mere speculation. Examples of the kind of loans most likely to be made under Point Four (and we could count ourselves lucky if their quality did not deteriorate) are provided by the existing Bank for Reconstruction and Development.

This Bank, by the terms of the articles of agreement under which it exists, can make loans only to governments, or make loans that are fully guaranteed as to principal and interest by governments (or government agencies). This means that its loans, when they are not made for traditional government projects (roads, harbors, navigation), or for socialistic enterprises like government railroads and hydroelectric plants, are made only to the "private" enterprises that can get governmental blessing. It is government officials rather than private enterprisers who in effect choose the type of project to be financed.

When this selective power is put in the hands of gov-

ernment, it means that the government in office may say which "private" projects shall have capital and which shall not, which firms shall have capital and which shall not, which groups or persons shall have capital and which shall be deprived of it. Inevitably this must increase the guaranteeing government's control over votes and over the whole economy.

Even if the government in power resists the obvious political temptations which this offers to increase its power (not to speak of the temptations to bribery that it opens up both to the private firms wanting such a guarantee and to the government officials that have the power to grant it), governments as such have a bias toward certain types of private enterprise. They are especially addicted to building up steel mills, hydroelectric plants and heavy industry — for these in particular increase the power of national defense and the power to conduct a war. But they are not necessarily the type of projects that do most to increase the consumers' standard of living.

(For example, in a survey published January 5, 1950, the United Nations Economic Commission for Europe declared that there was already a prospect of 8,000,000 tons "excess capacity" in the European steel industry. This is undoubtedly the result of excessive diversion of Marshall plan funds to steelmaking under intergovernmental plans. In other words, excess steel capacity was built up at the expense of production for consumers' needs.)

Another characteristic of the International Bank's loans is particularly worth noticing. In making its loans, the

Bank, by the terms of its articles of agreement, must pay "due regard" to the prospects that the borrower or the guarantor "will be in position to meet its obligations under the loan." On the other hand, however, the Bank is only to make a loan when it is "satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower."

In brief, by the conditions of its charter, the Bank is to make loans that on the one hand are sound, but on the other hand not sound enough for private lenders to risk their own funds in (on the terms on which they would be willing to part with such funds).

The Bank itself restates this requirement in its annual report for 1948-1949: "The Bank must be satisfied, on the one hand, that the loan cannot be obtained privately on reasonable terms, and, on the other, that there are reasonable prospects of repayment." It adds later: "Indeed, none of the loans which the Bank has made could have been privately financed."

Here is a paradox. Is there in fact any area, even as wide as a razor's edge, for the type of loans that the Bank is supposed to make? Are there loans that are sound enough to risk somebody else's money in (to wit, the American taxpayers'), but not sound enough for anyone to risk his own money in?

It is hard to see how we escape from this paradox by resort to the qualification — "on reasonable terms." Suppose that the Shah of Backwardarea has shopped around

among the private investment bankers of the world and can get no better interest rate than 8 per cent? Is this "unreasonable"? Do the private investors stand to make too much on it in comparison with the risks they take? Then why doesn't some other investment group take advantage of this rare opportunity for a safe profit by offering to make the loan at a slightly lower rate — say 7 per cent, or 6, or 5? If the best terms that private investors, competing with each other, would offer to Backwardarea are 8 per cent (assuming they would make it a loan at all), and if the International Bank comes forward and makes the loan at 4 per cent, then we must conclude that the Bank is in fact subsidizing Backwardarea by making it the equivalent of a gift of 4 per cent a year.

And this brings us back once more to the point that governments or government institutions do not in fact create any real additional loanable capital. They merely divert such capital from one channel to another — usually from private enterprise channels to government projects. In the Bank's 1948-1949 report it declares, for example: "Two large-scale reclamation projects were proposed by the Government [of India] for Bank consideration — clearance of one and one-half million acres of jungle and reclamation of four million weed-infested acres. The Bank is currently engaged in discussions with the Government with regard to a possible loan for the purchase of machinery for the weed clearance scheme." (The Bank actually made this loan in September, 1949.)

Passing over the striking similarity of this project to the

British East African peanut scheme, it is pertinent to ask whether it is desirable to lend the government of India money to buy tractors at 4 per cent while private American farmers, when buying tractors on installment, must pay much higher rates. Most advocates of Point Four plans have yet to learn that you cannot divert capital to government projects without depriving private projects of an equivalent amount of capital.

It is instructive to dwell this long on the lending principles and practices of the International Bank because these are typical of the lending practices of governments and government agencies everywhere. Our own Export-Import Bank, as I have already pointed out, makes the same type of loans. They are overwhelmingly loans to governments and government agencies, or loans guaranteed by governments. This applies also in the domestic field. Our Reconstruction Finance Corporation is supposed to make loans that are sound but not sound enough for private lenders to make on "reasonable" terms. And under the Housing Act of 1949 our government offers to lend construction money to farmers whose credit is so poor that they cannot borrow anywhere else.

Loans — or disguised gifts?

Even those who believe that a Point Four is necessary should recall that the International Bank already exists to do precisely what is proposed under Point Four.

In its last annual report the Bank itself declares that its own "basic mission is to assist its member countries to raise

production levels and living standards by helping to finance long-term productive projects, by providing technical advice and by stimulating international investment from other sources." It goes on to state flatly: "The Bank's basic objectives in this field are essentially the same as those of the Point Four program."

But the International Bank, though set up by governments, can expand its operations only to the extent that it sells its own obligations to private investors. It must look forward to the time when these obligations will exceed the amount guaranteed by the United States government. For this reason the management of the Bank takes a far more realistic view of the limitations of the Point Four objectives than do our government officials. Its comments on these objectives, in its annual report for 1948-1949, are worth quoting:

There is no quick and easy way to raise production levels and living standards; indeed, to raise hopes of a spectacular transformation may only invite disillusionment and failure. . . .

Money alone is no solution; in fact, loans for unproductive purposes or for projects which are poorly planned or executed can be a positive detriment. Perhaps the most striking single lesson which the Bank has learned in the course of its operations is how limited is the capacity of the underdeveloped countries to absorb capital quickly for really productive purposes. . . .

Comparison must also be made between the expected economic advantages of [the] particular project [for which a loan is being asked] and of other proposed projects which might have to be postponed or abandoned if this one be undertaken.

(This comparison, of course, would have to be made

also with the potential *private* projects which would have to be postponed or abandoned because capital was diverted from them.)

The major effort must clearly be made by the underdeveloped countries themselves; indeed, many of the problems which have been mentioned can be solved only at the national level. . . .

The Bank's experience to date indicates that the Bank now has or can readily acquire sufficient resources to help finance all the sound, productive projects in its member countries that will be ready for financing in the next few years, that can appropriately be financed through repayable foreign loans and that cannot attract private capital. . . .

There is a vast difference between the amount of money that can usefully be employed for development at any given time and the amount that would theoretically be needed to exploit all development possibilities. . . .

Over the long run, it is only the sustained flow of private capital that can provide external financial assistance in amounts sufficient to make a significant inroad on the world's development needs.

We have it, therefore, on the authority of the International Bank itself that even if a Point Four is needed it is already in effect — that to the full extent that sound Point Four loans could be prudently made, the International Bank is already making them. The report continues:

The desire of the underdeveloped countries to set the speed of their development faster than their own resources and existing international resources will permit has sometimes led to the suggestion that loans should be made, either by the Bank or by some new agency created for the purpose, at nominal interest rates and repayable over a very long period of time. Such loans, it should be noted, would probably involve a substantial international subsidy and to that extent a disguised

grant to the borrower. . . . It would be the Bank's judgment that such assistance should be rendered as outright grants rather than in some form of "fuzzy" loans which would tend to cast discredit upon the integrity of normal international investments.

This means, in other words, that Point Four, while it professes to be a plan for extending "loans" to the "under-developed areas," would in fact be a mere extension of disguised gifts.

Those who have any remaining doubts about this need merely recall the history of our postwar governmental economic relations with Europe. The emphasis was first of all solely on "loans." We made such a "loan" to Britain of \$3,750,000,000. The Marshall plan itself, at the beginning, was to consist mainly of "loans." But with the passage of time it became more and more a plan for outright gifts. The original emphasis on loans was forgotten.⁴

"Technical assistance"

It becomes increasingly clear that much of the popularity of Point Four lies in its vagueness and ambiguity. It is being interpreted to mean just what each special interest wants it to mean.

Some government officials imply, for example, and

⁴ See the present author's *Will Dollars Save the World?* (1947, The Foundation for Economic Education, 95 pp., 75 cents). "The bulk of our past and prospective government 'loans' to foreign governments are little better than thinly disguised gifts." Many of the considerations which applied against certain aspects of the Marshall plan apply with even greater force against the proposed Point Four. As I do not wish to repeat these arguments, I refer readers who are interested to that book.

many persons seem honestly to believe, that Point Four will cost the American taxpayers practically nothing, because it will mainly provide what is called "technical assistance" — that is to say, mere "know-how."

If the plan were, indeed, confined to mere technical assistance, there would be no serious need for it. For any enterprise or any government which wishes technical assistance can easily supply it for itself. The technical books are available, plentiful, and cheap. Any foreign government that wishes to do so may hire the services of private technical experts either in its own country, in Europe, or from the United States.

Let us say, for purposes of illustration, that this expert technical advice would represent 5 per cent of the cost of an entire project. If our government provides this gratis, it means that the American taxpayers are being forced to shoulder 5 per cent of the cost of a project in Backward-area. It means that this much less capital is available for some project in this country. It means that the American technical experts who are sent to Backwardarea must withdraw from similar projects here. It means, in brief, that the real cost of the Backwardarea project is hidden because part of it is being borne by our own taxpayers.

Why should our own taxpayers be obliged to bear it? On the ground that Backwardarea cannot itself raise the capital outlay for this 5 per cent? But if it cannot raise even this, if it cannot afford even this, how can it possibly be expected to raise, how can it possibly afford, the capital outlay for the other 95 per cent?

The argument for "technical assistance," in short, is implausible. It assumes that the underdeveloped areas can raise, say, 95 per cent of their own capital needs, but somehow cannot lay hands on the other 5 per cent unless they get it as a gift. It assumes that the recipient government will be able to meet all the major costs of its project but none of the minor costs.

"Technical assistance" would merely conceal the extent of the real costs by putting part of them on a charitable basis. In private enterprise, research and exploration expenses are considered part of the total investment. No private enterprise is considered truly sound, or will attract capital, unless it promises to repay the *whole* investment in it.

This objection applies against the "technical assistance" proposal no matter what percentage of the total cost of a project we assume the technical assistance to represent. If it represents not 5 per cent, but only 1 per cent, then it becomes all the more absurd to assume that Backwardarea, which is expected to pay a return on the other 99 per cent of the outlay, cannot itself afford to pay a return on this 1 per cent. If it represents not 5 per cent, but 10, 25, or 50 per cent, then the argument for trying to conceal these costs, or for compelling the American taxpayers to assume them, becomes even more dubious.

It is impossible to escape the conclusion that the proposal for "technical assistance" is in fact a proposal to grant an unacknowledged subsidy to every "underdeveloped area" project.

Moreover, even if we were to assume that this institutionalized or governmentalized technical assistance is necessary, we find that the existing International Bank already provides it anyhow.

The Bank declares in its annual report for 1948-1949:

A substantial number of requests have been received by the Bank from its member countries for technical advice and assistance of various kinds. . . .

Such assistance is furnished in various ways — through advice given by the Bank's permanent staff in the regular performance of their duties, by means of special missions, by employing individual experts to assist specific member countries with particular problems, and by suggesting qualified economic or technical advisers to be employed directly in the countries concerned. . . .

In order to be in a position to employ or recommend qualified technicians, the Bank has started to build up rosters of experts in various fields. The Bank hopes to be increasingly useful to its members in helping them obtain suitable technical personnel.

But the Bank is obliged to issue this warning: "The most carefully drawn plans of foreign experts will be of little value in the absence of local enterprise and initiative."

Even those who believe, in short, that governmental technical assistance and development loans, which private enterprise would not undertake, could really be soundly made to "underdeveloped areas," must recognize that the international institution already exists which, by its own declaration, "now has or can readily acquire sufficient resources to help finance all the sound, productive projects . . . that will be ready for financing in the next few years."

We can only assume that the advocates of Point Four plan to finance unsound projects, and that they want to finance them not by "repayable loans" but by a "disguised grant."

Government guarantee of private loans

The basic assumptions of Point Four, like those of the communist proposal by Earl Browder which it resembles, are, as we have seen, collectivist and statist.

This is evident throughout the text of the President's Point Four message of June 24, 1949. It allows a role for private capital, but it is the role of a junior partner. Point Four "will call upon private enterprise . . . *as well as* the government. . . . It will be necessary to utilize *not only* the resources of international agencies and the United States Government, but *also* the facilities and experience of private business," etc.

Private enterprise is to be "encouraged." How? By authorizing the Export-Import Bank to "guarantee United States private capital . . . against the risks peculiar to those [foreign] investments. . . . Some investments may require only a guarantee against the danger of inconvertibility, others may need protection against the danger of expropriation and other dangers as well."

What is the President here proposing? He is proposing that in order to induce American private investors to risk their funds abroad, *we are to allow these private investors to keep the profits of their investment, but to force the American taxpayers to assume the losses.*

Such a proposition needs merely to be stated plainly to show that it would be preposterous and intolerable. The private investors and investment bankers who applaud this proposition are short-sighted beyond belief. It could only lead to the control and eventual nationalization of all foreign investment.

Such an arrangement, moreover, would not remove or in the least reduce the risks of foreign investment. It would merely *transfer* those risks from the investor to the taxpayers. The taxpayers would pay for the investor's losses abroad out of the proceeds of their own businesses at home.

This proposal, like most proposals of the so-called Welfare State, rests on the fundamental assumption that nearly every domestic and foreign problem can be solved simply by seizing still more from the American taxpayers and handing it over to someone else.

The President suggests that our government's Export-Import Bank, in exchange for its guarantees of private foreign loans, will "be able to require the payment of premiums for such protection, but there is no way now to determine what premium rates will be most appropriate in the long run. Only experience can provide answers to these questions."

The truth is that the number of loans that have turned sour in the past can never enable us to estimate correctly the number of loans that will turn sour in the future. Each loan must be judged on its individual merits. The only premium that is certain to be adequate enough to guaran-

tee an unsound loan is 100 per cent of the capital amount of the loan.

If there were any real actuarial basis for calculating the risks of an investment and the premium necessary to cover them, private insurance companies would long ago have come into existence to undertake this function. The history of the short-lived mortgage guarantee companies of 1929 is not encouraging. Such government guarantees of private foreign investments would in fact mean transferring the risks to the American taxpayers.

The risks of foreign lending

A basic assumption of Point Four is that government could do more to reduce the risks of foreign investment than private investors could. This is the exact reverse of the truth.

We are negotiating agreements with other countries [declares the President] to protect the American investor from unwarranted or discriminatory treatment under the laws of the country in which he makes his investment. In negotiating such treaties we do not, of course, ask privileges for American capital greater than those granted to other investors in underdeveloped countries. . . .

This reveals a basic misunderstanding of what is required. It is something, of course, that American capital should not be discriminated against. But one major reason why most of the "underdeveloped" countries have remained underdeveloped is that they have hostile laws or a hostile political climate which have discouraged or made

impossible the accumulation or investment even of *domestic* capital. It will not necessarily reassure American investors to learn that Backwardarea promises to treat them no worse than it treats its own native investors. For wherever you find a government that is hostile to foreign capital, you are likely to find a government that is only slightly less hostile to native capital.

It is hostile because it does not understand the function of capital itself. Wherever a government complains that foreign investors "take more out of the country than they put in," it will also be found to suspect that *all* investors take out more from a project than they put in. Wherever a government shouts about "unreasonable" profits on the part of foreign investors, you will usually find it murmuring against "unreasonable" profits on the part of native investors. There is one thing that such a government is not interested in, or has never heard of — unreasonable risks or unreasonable losses.

Here is one example of this hostile attitude toward foreign investment. A report issued in December, 1947, by a sub-commission of the Economic and Social Council of the United Nations declared: "In practice the foreign investor has, as a matter of course, been more concerned with profits than with the scientific conservation and utilization of the resources of the country in which he operates his investment."

It is precisely the private investor's concern with profits which assures that world resources are developed in the most economical way; that those projects are developed

first for which there is the greatest direct or indirect consumer demand, and that they are developed economically enough for the value of the product to be greater than the total costs of production — in other words, for the output to be greater than the input. This is precisely what governmentally planned and operated projects are not concerned with. We have already cited Soviet Russia's Dnieper dam and the British Labor government's peanut scheme as examples.

The bureaucrats who drafted this report were throwing suspicion on the motives of "the foreign investor" and eulogizing their own motives. Against the concern of the private investor with profit, they might have placed the concern of the bureaucrat with increasing his own tenure and power. Their implication that governments are concerned only with "the scientific conservation and utilization of the resources of the country" is hardly supported by the record.

Their report continued: "In the least-developed countries, private or government loans and credits are preferable and should be encouraged instead of direct private investments in view of the special danger of direct foreign investments interfering in the political and economic affairs of those countries."

Foreign investors should not, of course, attempt to interfere in a country's internal affairs. But most of this alleged "interference" is no more than the efforts of foreign investors to save themselves from hostile legislative proposals, excessive taxes or outright confiscation.

Borrowers that insist on dictating stiff terms to lenders will naturally get few loans. Unless, of course, the lending country's government, which is not concerned about losses, forces its taxpayers to make such loans.

And what are we to say when our own office-holders seem just as hostile to having our own investors make a profit in foreign countries? In his original discussion of Point Four in his inaugural address of January 20, 1949, President Truman declared: "The old imperialism — exploitation for foreign profit — has no place in our plans." He did not define what he meant by "exploitation," which carries Marxist overtones. But as private investors will only invest where the prospect of a profit exists, many hearers felt obliged to conclude that Point Four was intended to be financed primarily by the government.

The President did not continue to rule out "profit" in his special Point Four message of June 24, 1949. But he did declare: "We believe that American enterprise [in the 'underdeveloped countries'] should not waste local resources, should provide adequate wages and working conditions for local labor, and should bear an equitable share of the burden of local taxes."

But if Backwardarea's local taxes are excessive, our private investors may see no reason why they should rush in to assume an "equitable share" thereof. As for "adequate wages," new foreign capital must necessarily pay at least the previously prevailing wage in a country or district, and usually even a higher wage, in order to attract the workers that it wants from their previous occupations.

If the government of the underdeveloped country imposes a minimum wage that, in effect, applies to foreign capital alone, as it often does, it must discourage the further investment of such capital. If it imposes a minimum wage *generally* that is substantially higher than the free bargaining wage would be, it discourages domestic as well as foreign capital, creates unemployment and retards its own economic development. This does not help local labor.

We believe that investors [continues the President in his June 24 message] will send their capital abroad on an increasing scale only if they are given assurance against risk of loss through expropriation without compensation, unfair or discriminatory treatment, destruction through war or rebellion, or the inability to convert their earnings into dollars.

This is entirely true. But is it not a strange procedure to insure private investors against "expropriation without compensation" by expropriating without compensation from our own taxpayers the money to pay the "insured" losses?

[The President continues:] Although our investment treaties will be directed at mitigating such risks, they cannot eliminate them entirely. With the best will in the world a foreign country, particularly an under-developed country, may not be able to obtain the dollar exchange necessary for the prompt remittance of earnings on dollar capital.

This is a complete misconception. Certainly "expropriation without compensation" and "unfair or discriminatory treatment" can be halted by any government with a will to halt them. And this applies no less to dollar convertibility of earnings.

Let us say that an American enterprise is started in Backwardarea and that it makes a profit. Suppose the profit is made by exports of petroleum or copper to the United States. Then the profit already exists in dollars, and the American enterprise *has* the dollars, *unless the dollars are seized from it by the Backwardarea government* through exchange control or some other device. If the profit has been made by local sales, on the other hand, this means that the American enterprise has converted its dollars into the local currency. It can simply reconvert its local currency back into dollars at the same rate, or at the going market rate, unless the Backwardarea government *forbids* it to do so.

The so-called "dollar shortage" is a myth. It is created by the very exchange control that ostensibly exists to cure it. What happens, in brief, is that the government of Backwardarea seizes the dollars at an arbitrary rate from the private persons who own them and then refuses to surrender these dollars at that rate except for the particular "social" purposes or to the particular persons that it approves.

Investment treaties

The "investment treaties," if they do not concede more than they properly should, are potentially the one sound feature of Point Four.

But they are of limited value. For if a foreign government is prepared to deal honestly and fairly with private investment, we do not need such an agreement. And if it

is not, it will in one way or another violate or wriggle out of the agreement.

And what will our government do then? We do not need to ask. The history of the ECA already tells us. It will be afraid to do practically anything at all. For the most timid and delicate hints on the part of our government representatives will be denounced as outrageous "pressure" on the borrowing government, as interference in its internal affairs, as an effort to halt its glorious socialist planning, to reimpose a discredited capitalism, and so on.

Private investors, lending at their own risk, are freer to deal with such matters, and can do so more effectively. They do not dictate. They do not interfere. But as long as a foreign government levies confiscatory taxes, expropriates private property, socializes, nationalizes, imposes a strangling network of exchange and trade controls, or forbids its own nationals to repay their honest debts, private investors respectfully decline to make loans. They are not impressed by elaborate signed agreements to be honest, but only by an actual record of honesty.

And wherever that record existed, there would be no dearth of private capital for foreign investment. In the decade from 1880 to 1890, Great Britain was lending new private capital abroad at a rate of from £ 30,000,000 to £ 35,000,000 a year. This does not sound impressive today in absolute amount. But it is estimated that it equalled about 2¼ per cent of the then British national income. If a similar percentage of the present estimated national income of the United States were to go into

private investment abroad, it would amount to some \$5,000,000,000 a year.

In 1913, Britain's new foreign investments amounted to about *10 per cent* of the then British national income — though most of this represented, in effect, the re-investment of annual interest and dividends received from already outstanding investments abroad.

And potential investment does not increase merely in proportion to national income. The greater their income, other things being equal, the greater the percentage of it people can afford to save and invest. It cannot be doubted that the potential private funds for foreign investment exist in ample amount here. It is merely necessary for would-be borrowers abroad to make their policies and their political and economic climate sufficiently attractive to our private investors.

The amazing British record of private foreign loans in the Nineteenth and early Twentieth Centuries was made without the help of an elaborate network of intergovernmental "investment treaties."

How backward regions can help themselves

A few miscellaneous points remain to be discussed.

"The grinding poverty," says the President, "and the lack of economic opportunity for many millions of people in the economically under-developed parts of Africa, the Near and Far East, and certain regions of Central and South America, constitute one of the greatest challenges of the world today."

They do indeed. But is that challenge primarily to *us*, as the President implies? Or is it not rather to the people of the underdeveloped regions themselves? For if, as Point Four necessarily implies, the natural resources exist in these regions to be developed, why have they remained undeveloped all this time? Is not this the first question that the leaders of those regions ought to ask themselves?

"If they are frustrated and disappointed," the President continues, "they may turn to false doctrines which hold that the way of progress lies through tyranny." Is not this, perhaps, a reversal of cause and effect? Is it not in many cases precisely because they have *already* turned to false doctrines that they are frustrated and disappointed? If, instead of adopting a caste system or ancestor worship, say, they had adopted a system of free markets, free entrance to work and enterprise, free competition, free initiative, equality of opportunity, stability of currency, security of life and limb and private property, and voluntary restraint in population growth — would they be today as frustrated and disappointed and underdeveloped as they are?

"The development of these areas," the President continues, "will strengthen . . . the fabric of world peace." Will it, necessarily? Did the economic development of Germany and Japan strengthen the fabric of world peace? Do you insure world peace merely by giving other nations the economic strength to make war?

We are much more likely to strengthen the fabric of world peace by letting private capital go to those regions that have built up the confidence of foreign investors by

respecting their contracts, by respecting the legal rights of persons and private property, by creating an atmosphere of internal peace and order, and by refraining from socialization, nationalization, militarization, and all the other totalitarian symptoms that go with external aggressiveness.

"Unless we aid the newly awakened spirit in these peoples to find the course of fruitful development," the President continues, "they may fall under the control of those whose philosophy is hostile to human freedom." The implication of this is that neither the example of the economic wretchedness of the nations that have embarked upon communism, nor the example of the unparalleled productivity of free enterprise in the United States, will be enough to determine the decision of these peoples, but that in order to get them to reject communism and accept free enterprise we must *bribe* them to do so.

"Unless you pay us enough, we will go fascist or communist on you." This may be called the blackmail argument. The answer is that if we once try to *buy* people to stay free, and give them even the faintest suspicion that we wish them to adopt free enterprise *as a favor to us*, we do not strengthen but weaken the psychological and political forces which make for freedom in that country.

Essentially the same argument is used by those who still believe that we can use dollars to buy the friendship or the gratitude of foreign peoples. A rather conclusive answer comes from the results of a poll conducted for the ECA in Europe. This revealed that in France, for example, only

four persons in every 100 questioned credited the Marshall plan as being a factor in French recovery.⁵

The camel's head

One final point remains. Some people are disposed to accept Point Four, regardless of their questions on grounds of principle, because the proposed cost to the American taxpayers for the first year — \$35,000,000 to \$45,000,000 — seems so small.

But these people ought to have learned by now that this would merely be letting the camel's head in the tent. Everyone knows that if we were to send a government technical commission to some undeveloped region, and this commission were to report that capital investment was possible there, we would create a logical expectation that, as the next step, we would supply the capital itself. If it is our responsibility to do the first, why not also the second?

Miss Barbara Ward of Great Britain was merely a little premature when she called for American investment in world stability on an "heroic scale," instead of "homeopathic doses of fifteen million dollars."⁶ The history of such schemes enables us to predict with confidence that once the American taxpayers consent to the homeopathic doses, the demands for more heroism will come from their bureaucrats at home.

⁵ Associated Press dispatch, *The New York Times*, December 11, 1949.

⁶ *The New York Times*, October 21, 1949.

It is of the foremost importance not to accept the *principle* of Point Four. As *The Wall Street Journal* has put it: "Once you accept the premise that it is the duty of the United States to provide for economically-backward people everywhere, there is literally no place to stop. . . . Once we acknowledge that obligation we leave it to the whole world to tell us the scope of it."⁷

To put it still another way, once we accept the principle that we owe the rest of the world a living, our responsibilities will become bottomless.

We can save ourselves much recrimination and ill-will, and ruinous expense, if we stop before we start.

Summary and Conclusions

Let us begin by summarizing the principal objections we have found to Point Four:

1. The fact that it so strikingly resembles the proposals of the official head of the Communists in this country in 1944 is strong ground for initial suspicion. It would be strange to embrace the program of our enemy in an expensive "cold war" designed to stop the spread of that program.

2. Point Four will not add to the total invested capital of the world. It will at best merely *divert* that capital from one channel to another.

3. It will tend to divert capital from the development

⁷ September 29, 1949.

of private enterprises to the development of statist, militarist or socialistic enterprises.

4. We cannot give our cake away and eat it too. We can speed up the capital development of other countries only at the expense of our own capital development. We cannot get rich by giving our exports away.

5. The British peanut fiasco illustrates in advance what a typical Point Four project would be like.

6. Even those who believe that a Point Four program is necessary should recall that the International Bank for Reconstruction and Development, and the Export-Import Bank, already exist to do precisely what is proposed under Point Four and are already doing it in ample volume.

7. Though Point Four professes to be a plan for extending repayable loans, it would in fact quickly become a plan for making disguised gifts.

8. The proposed government guarantees of private capital invested abroad mean that we would allow private investors to keep the profits of their investment but would force the American taxpayers to assume the losses. Such an arrangement would be intolerable. It could only lead to the control and eventual nationalization of all foreign investment.

9. Point Four would not in the least reduce the risks of foreign investment, but merely transfer them from the American investor to the American taxpayers.

10. The assumption that government lending (or sponsorship) could do more to reduce the risks of foreign investment than private lending is the reverse of the truth.

11. If conditions abroad were such today as to encourage American investors to lend abroad the same proportion of total national income as British private investors did in the late Nineteenth Century, our private foreign investments would reach about \$5,000,000,000 a year.

12. Once we accept the principle that we owe the rest of the world a living, our responsibilities become endless and bottomless.

These objections to a wrong course indicate clearly what the right course must be. The real barrier to international loans today is not lack of potential private American investment funds but lack of proper assurances for their safety from the governments of the foreign countries that wish to borrow. The real initiative, therefore, must come from these governments. The first reforms must come from within each country that wishes to accelerate its capital development by loans from abroad. Each would-be borrowing country must make itself credit-worthy. It must inspire or regain the confidence of the private foreign investor.

It can do this only by adopting or restoring a truly liberal economic policy. It must abandon price control, profit control and wage control, and restore a vigorous, free, competitive market economy. It must dismantle exchange control, and the whole system that goes with it — prohibitions, licensing, quotas, bilateralism, multiple exchange rates, and dual-pricing. It must permit its currency to be at all times freely convertible in any amount into all